

**KENOWA HILLS
PUBLIC SCHOOLS**
Kent and Ottawa Counties, Michigan

Comprehensive Annual Financial Report

For the year ended June 30, 2006

KENOWA HILLS PUBLIC SCHOOLS
Table of Contents

For the year ended June 30, 2006

Financial Section

<i>Independent Auditor's Report</i>	1
<i>Management's Discussion and Analysis</i>	3
<i>Basic Financial Statements</i>	13

District-wide Financial Statements:

Statement of Net Assets.....	14
Statement of Activities	15

Fund Financial Statements:

Governmental Funds:

Balance Sheet	16
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – General Fund	20

Fiduciary Funds:

Statement of Fiduciary Net Assets.....	21
Statement of Changes in Fiduciary Net Assets	22

Notes to Basic Financial Statements	23
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Supplemental Information

Combining and Individual Fund Statements and Schedules:

General Fund	40
Comparative Balance Sheet	41
Comparative Schedule of Revenues	42
Comparative Schedule of Expenditures	43

KENOWA HILLS PUBLIC SCHOOLS
Table of Contents (Continued)

For the year ended June 30, 2006

Nonmajor Governmental Funds	55
Combining Balance Sheet.....	56
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances.....	57
Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Food Service Special Revenue Fund.....	58
Athletics Special Revenue Fund.....	59
Special Revenue Funds.....	60
Food Service Special Revenue Fund:	
Comparative Balance Sheet.....	61
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances	62
Athletics Special Revenue Fund:	
Comparative Balance Sheet.....	63
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances	64
Agency Fund.....	65
Student Activities Agency Fund:	
Statement of Changes in Assets and Liabilities	66
Other Information:	
Summary of 2005 Taxes Levied and Collected.....	68

Federal Financial Assistance Programs Supplemental Information Issued Under Separate Cover

FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

September 1, 2006

The Board of Education
Kenowa Hills Public Schools

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Kenowa Hills Public Schools (the "District") as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the aggregate remaining fund information of Kenowa Hills Public Schools as of June 30, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006 on our consideration of Kenowa Hills Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Kenowa Hills Public Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Alden, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS



As management of the Kenowa Hills Public Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets, and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base, economic factors that might influence state aid revenue, and the condition of school buildings and other facilities.



In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Condensed District-Wide Financial Information

The Statement of Net Assets provides financial information on the District as a whole.

	2006	2005
Assets		
Current assets	\$ 8,444,042	\$ 7,091,583
Capital assets, net book value	29,876,993	30,705,361
Total Assets	38,321,035	37,796,944
Liabilities		
Current liabilities	5,674,872	5,493,165
Long-term liabilities	33,305,998	35,251,092
Total Liabilities	38,980,870	40,744,257
Net Assets		
Invested in capital assets, net of related debt	(4,744,334)	(5,468,283)
Restricted	250,187	100,874
Unrestricted	3,834,312	2,420,096
Total Net Assets	\$ (659,835)	\$ (2,947,313)

The results of the fiscal year's operations for the District as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.



The Statement of Activities presents changes in net assets from operating results:

	2006	2005
Program Revenues		
Charges for services	\$ 1,174,781	\$ 1,125,837
Operating grants	4,547,851	4,428,323
General Revenues		
Property taxes	13,780,942	13,387,866
State school aid, unrestricted	15,366,527	15,859,861
Interest earnings	317,713	98,534
Gain on sale of capital assets	2,559	4,347
Other	388,733	337,022
Total Revenues	35,579,106	35,241,790
Expenses		
Instruction	17,583,107	18,414,148
Supporting services	11,809,862	11,772,737
Community services	318,810	306,614
Food service	1,283,105	1,247,295
Athletics	428,106	425,676
Other	16,819	13,952
Interest expense	1,851,819	1,159,145
Total Expenses	33,291,628	33,339,567
Increase in net assets	2,287,478	1,902,223
Net Assets - Beginning of Year	(2,947,313)	(4,849,536)
Net Assets - End of Year	\$ (659,835)	\$ (2,947,313)

Financial Analysis of the District as a Whole

The District's financial position is the product of many factors. Growth during the year in taxes and operating grants were the largest contributors to revenue increases. Expenditures declined due mainly to budget reductions instituted by the school board for the second consecutive year.

The Districts's total revenues increased one percent to \$35.57 million. Property taxes and unrestricted state aid accounted for most of the District's revenue, contributing 82 cents of every dollar raised. Another 12.8 percent came from state and federal aid for specific programs and the remainder from fees charged for services, interest earnings and miscellaneous sources.

The total cost of all programs and services remained stable at \$33.3 million. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (60 percent). The District's administrative and business activities accounted for 7 percent of total costs. Operation and maintenance expenses accounted for \$3 million or 9 percent.



Total revenues surpassed expenses, increasing net assets by \$2,287,478 from last year.

The improved status of the District's finances this past year can be attributed to planning and implementing strategies aimed at reducing annual operating costs. Cost reduction strategies were broadly applied in the school district's largest fund, the General Fund. Attributes of the District's current financial picture are as follows:

- Rising real estate values led to a 2.9 percent increase in property tax revenues, despite the fact that certain tax rates were reduced 6.7 percent from the previous year. The District has not raised tax rates since 1996.
- The cost of all governmental activities this year was \$33.3 million.
- Some of the cost was financed by the users of the District's programs (\$1.1 million).
- The federal and state governments subsidized certain programs with grants and contributions (\$4.55 million) an increase of \$120,000 over the previous year.
- Most of the District's costs (\$29.7 million), however, were financed by District and State taxpayers.
- The \$33.3 million of governmental activities was financed with \$13.8 million in property taxes, \$15.4 million of unrestricted state aid based on the statewide education aid formula, investment earnings, and other local sources.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship Funds and Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.



Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Kenowa Hills Public School's funds are described as follows:

Major Fund

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$30,807,517, total expenditures of \$29,046,695, and total other financing uses of \$302,722. It ended the fiscal year with a fund balance of \$4,475,982, an increase of \$1,458,100 from the fund balance of \$3,017,882 at June 30, 2005. The increase in fund balance was due almost entirely to the implementation of expenditure or budget reductions totaling more \$1.3 million in the 2005-06 fiscal year.

Nonmajor Funds

Special Revenue Funds

The District operates two Special Revenue Funds, for the food service and athletic programs. Total revenues were \$1,443,352 and other financing sources were \$285,903, with total expenditures of \$1,680,706. The ending fund balance of \$128,594 was attributable to the Food Service Fund.

Debt Service Funds

The District maintains one Debt Service Fund. Total revenues were \$3,580,721 and total expenditures were \$3,438,306. The ending fund balance in the Debt Service Fund was \$486,736.

Fiduciary Funds

The District has Scholarship Funds and a Student Activities Fund. The assets of these funds are being held for the benefit of the District's students. Balances on hand at June 30, 2006 totaled \$154,232.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget two times. These budget revisions included three important changes:

- Changes made to account for the final student enrollment that determines how much foundation grant per pupil or State school aid will be received during the fiscal year.
- Final changes made in June to more closely reflect anticipated revenues.
- Final changes made in June for increases in various appropriations to prevent budget overruns.

Although the District's final budget for the General Fund anticipated that revenues would exceed expenditures by \$385,950, the ending result was an excess of revenues of \$1,458,100.

- Actual revenues were \$234,104 higher than expected, due largely to a second Medicaid reimbursement from KISD at year-end.
- Actual expenditures and transfers were \$854,864 below budget, due primarily to unspent grant monies that will be carried over to the 2006-07 school year and underexpended budgets in operations and maintenance and interdistrict transfers.

Management's Discussion and Analysis
June 30, 2006

Capital Assets

By the end of 2005-06, the District had invested \$44.9 million in a broad range of capital assets, including land, school buildings, athletic facilities, vehicles, computer equipment and software, and administrative offices. This amount represents a net decrease of less than one percent from last year. (More detailed information about capital assets can be found in the Notes to Basic Financial Statements.) Total depreciation expense for the year was \$1.16 million while building improvements and additions to equipment and furniture amounted to almost \$334,000.

The District's fiscal year 2006-07 capital budget calls for spending on capital projects in the following areas:

- \$27,000 for reroofing of Marne Elementary School.
- \$22,000 to replace a large piece of lawn mowing equipment.
- \$9,500 for interior remodeling at various school buildings.
- \$8,000 for exterior remodeling and grounds improvements at the Middle School.
- \$236,000 to replace instructional hardware (computers), network switches, servers, printers and data projectors at various school buildings.

At June 30, 2006, the District's investment in capital assets (net of accumulated depreciation), including land, land improvements, buildings, vehicles, furniture and equipment, was \$29.9 million. This represents a decrease of approximately \$800,000 from the previous year-end.

Land	\$ 1,108,000
Land improvements	610,334
Buildings and additions	26,739,120
Furniture and equipment	335,780
Vehicles	1,083,759
	<hr/>
Net Capital Assets	<u><u>\$ 29,876,993</u></u>

Long-Term Debt

At year end, the District had \$35.2 million in general obligation bonds and other long-term debt outstanding – a net reduction of \$1.67 million from last year. The District continued to pay down its debt, retiring \$1.54 million of outstanding bonds and \$308,000 of employee retirement payments.

The District's bond rating (Standard & Poors) for General Obligation, Unlimited Tax debt remains "AAA". This rating is a carryover of the State of Michigan's bond rating since the general obligation bonds issued by the school district were qualified by the State at the time of issuance.

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within a district's boundaries. The District's other long term obligations include early retirement incentive and accumulated sick leave. We present more detailed information about our long-term liabilities in the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- Negotiated contract settlements were reached with teacher and support staff unions representing 350 employees which will cover the 2006-07 and 2007-08 fiscal years. The agreement with the teacher's union continues to include a salary provision which will impact the 2008-09 and 2009-10 fiscal years. That provision will require that teacher salary steps increase by 1.5 times rather than the traditional 1.0 rate of increase in 2008-09 and 2009-10. The estimated cost of the additional salary step increase for the two years is \$400,000.
- The District transferred responsibility for its special education itinerant staff special education services to the Kent ISD beginning with the 2004-05 school year. The total cost of these programs is estimated at \$1.3 million for the 2006-07 school year. These services were transferred in anticipation of cost savings. Savings are still expected, although the amount remains unclear at this time.
- Cost increases exceeding the general rate of inflation continue to be expected for the district relative to health care and pension contribution obligations. These costs represent a significant portion of the District's budget and their rate of increase continues to be a concern to management. Recently, increases in the cost of energy have moderated somewhat, although the volatility of prices for energy related commodities such as diesel, gasoline and natural gas also remains a concern.
- The State of Michigan continues to be mired in an economic slump that has been underway for the past five years. State school aid funding and tax collections that help to subsidize the State school aid fund for K-12 schools are sensitive to the economic growth rate in Michigan. Weak economic performance in Michigan generally means little or no growth in the State foundation grant (State school aid) to K-12 schools. However, the State foundation grant did increase by \$175 per student in 2005-06 and is expected to increase by \$200 per student in 2006-07. These increases are due to the Governor and State legislature making education funding a top priority. Given the persistent weakness of the state economy, management is cautious about the outlook for further increases in per pupil funding in the future.
- The District's fund balance in its primary operating fund, the General Fund, increased by \$1,458,100 during the 2005-06 fiscal year to \$4,475,982. The increase in fund balance is viewed as a positive financial development and should help to maintain the stability of school programming during the 2006-07 school year and 2007-08 school years.
- Budget reductions totaling more than \$1.6 million were put in place at the start of the 2005-06 fiscal year to maintain or improve the financial position of the General Fund. Those budget reductions marked the second straight year of large reductions in the annual school budget. Reductions in 2004-05 totaled more than \$1.3 million. Both management and the board of education are committed to the goals of maintaining the financial stability of the school district and to maintaining core instructional programming for all students. While the financial strength of the school district has been improved significantly by these budget reductions, there is still reason to be cautious about the district's financial outlook, due to its heavy dependency on State funding and the State's economic difficulties described earlier.



Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Robert Zeitter, Assistant Superintendent, Kenowa Hills Public Schools, 2325 Four Mile Road, N.W., Grand Rapids, MI 49544. Contact by e-mail: rzeitter@khps.org.

BASIC FINANCIAL STATEMENTS

KENOWA HILLS PUBLIC SCHOOLS
Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Current Assets	
Cash	\$ 1,050
Cash equivalents (Note B)	4,510,762
Taxes receivable (Note C)	161,051
Due from other governmental units (Note C)	3,678,891
Inventory (Note A)	92,288
Total Current Assets	<u>8,444,042</u>
Noncurrent Assets	
Capital assets (Note E)	44,884,996
Less accumulated depreciation	<u>(15,008,003)</u>
Total Noncurrent Assets	<u>29,876,993</u>
Total Assets	<u>38,321,035</u>
Liabilities	
Current Liabilities	
Accounts payable	503,164
Due to other governmental units	660,368
Accrued interest payable	268,193
Salaries payable	1,481,314
Deferred revenue	546,833
Current portion of long term obligations	<u>2,215,000</u>
Total Current Liabilities	<u>5,674,872</u>
Noncurrent Liabilities (Notes A, F)	
General obligation bonds payable	34,375,000
Early retirement incentive	436,572
Accumulated sick leave	463,098
Unamortized bond premium	246,328
Current portion of long term obligations	<u>(2,215,000)</u>
Total Noncurrent Liabilities	<u>33,305,998</u>
Total Liabilities	<u>38,980,870</u>
Net Assets	
Invested in capital assets, net of related debt	(4,744,334)
Restricted for:	
Debt service	250,187
Unrestricted	<u>3,834,312</u>
Total Net Assets	<u>\$ (659,835)</u>

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Statement of Activities
For the year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 17,583,107	\$ 119,213	\$ 3,381,947	\$(14,081,947)
Supporting services	11,809,862	46,337	596,708	(11,166,817)
Community services	318,810	136,478	-	(182,332)
Food service	1,283,105	733,696	563,637	14,228
Athletics	428,106	139,057	-	(289,049)
Other	16,819	-	5,559	(11,260)
Interest expense	1,851,819	-	-	(1,851,819)
Total Governmental Activities	\$ 33,291,628	\$ 1,174,781	\$ 4,547,851	(27,568,996)
General Revenues				
Taxes:				
Property taxes, levied for general operations				10,311,719
Property taxes, levied for debt service				3,469,223
State school aid, unrestricted				15,366,527
Interest and investment earnings				317,713
Gain on sale of capital assets				2,559
Other				388,733
Total General Revenues				29,856,474
Change in Net Assets				2,287,478
Net Assets - Beginning of Year				(2,947,313)
Net Assets - End of Year				\$ (659,835)

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2006

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Assets			
Cash	\$ 400	\$ 650	\$ 1,050
Cash equivalents (Note B)	3,908,977	601,785	4,510,762
Taxes receivable (Note C)	129,406	31,645	161,051
Due from other funds (Note D)	5,570	6,730	12,300
Due from other governmental units (Note C)	3,666,908	11,983	3,678,891
Inventory (Note A)	75,492	16,796	92,288
Total Assets	<u><u>\$ 7,786,753</u></u>	<u><u>\$ 669,589</u></u>	<u><u>\$ 8,456,342</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 503,164	\$ -	\$ 503,164
Due to other funds (Note D)	6,730	5,570	12,300
Due to other governmental units	660,368	-	660,368
Salaries payable	1,481,314	-	1,481,314
Deferred revenue	659,195	48,689	707,884
Total Liabilities	<u>3,310,771</u>	<u>54,259</u>	<u>3,365,030</u>
Fund Balances			
Reserved for:			
Debt service	-	486,736	486,736
Unreserved:			
Undesignated, reported in:			
General fund	4,475,982	-	4,475,982
Special revenue funds	-	128,594	128,594
Total Fund Balances	<u>4,475,982</u>	<u>615,330</u>	<u>5,091,312</u>
Total Liabilities and Fund Balances	<u><u>\$ 7,786,753</u></u>	<u><u>\$ 669,589</u></u>	<u><u>\$ 8,456,342</u></u>

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

Total governmental fund balances		\$ 5,091,312
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$44,884,996 and accumulated depreciation is \$15,008,003.		
		29,876,993
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.		
		(246,328)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	\$(34,375,000)	
Early retirement incentive	(436,572)	
Accumulated sick leave	(463,098)	
	<u>(905,960)</u>	(35,274,670)
Accrued interest is not included as a liability in governmental funds.		
		(268,193)
Deferred revenue recognized as revenue in the full accrual statements:		
Property taxes		<u>161,051</u>
Total net assets - governmental activities		<u><u>\$ (659,835)</u></u>

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2006

	General	Nonmajor	Total
Revenues			
Local sources	\$11,462,335	\$ 4,460,436	\$ 15,922,771
State sources	15,973,857	81,797	16,055,654
Federal sources	1,006,465	481,840	1,488,305
Interdistrict sources	2,364,860	-	2,364,860
Total Revenues	<u>30,807,517</u>	<u>5,024,073</u>	<u>35,831,590</u>
Expenditures			
Current:			
Instruction	16,441,900	-	16,441,900
Supporting services	10,011,970	-	10,011,970
Community services	309,515	-	309,515
Food service	-	1,262,476	1,262,476
Athletics	-	418,230	418,230
Debt service:			
Principal repayment	-	1,540,000	1,540,000
Interest and fiscal charges	-	1,898,306	1,898,306
Interdistrict	2,283,310	-	2,283,310
Total Expenditures	<u>29,046,695</u>	<u>5,119,012</u>	<u>34,165,707</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,760,822</u>	<u>(94,939)</u>	<u>1,665,883</u>
Other Financing Sources (Uses)			
Transfers in	-	285,903	285,903
Transfers out	(285,903)	-	(285,903)
Other	(16,819)	-	(16,819)
Total Other Financing Sources (Uses)	<u>(302,722)</u>	<u>285,903</u>	<u>(16,819)</u>
Net Change In Fund Balances	1,458,100	190,964	1,649,064
Fund Balances, Beginning of Year	<u>3,017,882</u>	<u>424,366</u>	<u>3,442,248</u>
Fund Balances, End of Year	<u><u>\$ 4,475,982</u></u>	<u><u>\$ 615,330</u></u>	<u><u>\$ 5,091,312</u></u>

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2006

Net change in fund balances - total governmental funds \$1,649,064

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

	Capital outlays	\$ 333,526	
	Depreciation expense	<u>(1,161,894)</u>	(828,368)

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (264,800)

Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue. 12,316

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. 1,540,000

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities however, interest expense is recognized as the interest accrues regardless of when it is paid. 46,488

In the Statement of Net Assets, early retirement incentive, accumulated vacation pay and compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits used/paid (\$307,999) exceeded the amounts earned (\$175,221). 132,778

Total changes in net assets - governmental activities \$ 2,287,478

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$11,211,782	\$11,372,194	\$11,462,335	\$ 90,141
State sources	16,077,399	15,917,218	15,973,857	56,639
Federal sources	1,059,632	1,088,288	1,006,465	(81,823)
Interdistrict sources	2,164,108	2,195,712	2,364,860	169,148
Total Revenues	30,512,921	30,573,412	30,807,517	234,105
Expenditures				
Current:				
Instruction:				
Basic programs	14,071,046	13,379,961	13,274,468	105,493
Added needs	3,435,062	3,233,797	3,142,804	90,993
Adult education services	17,820	24,631	24,628	3
Supporting services:				
Pupil services	783,351	826,445	821,691	4,754
Instructional staff services	1,188,617	1,129,998	1,020,513	109,485
General administrative services	645,381	635,041	608,379	26,662
School administrative services	1,923,375	1,823,841	1,816,358	7,483
Business services	598,114	635,970	598,222	37,748
Operation and maintenance services	3,332,225	3,278,292	3,046,762	231,530
Pupil transportation services	1,434,963	1,586,292	1,537,757	48,535
Central services	592,574	568,684	562,288	6,396
Community services	314,516	320,502	309,515	10,987
Interdistrict	2,252,350	2,421,710	2,283,310	138,400
Total Expenditures	30,589,394	29,865,164	29,046,695	818,469
Excess (Deficiency) Of Revenues Over Expenditures	(76,473)	708,248	1,760,822	1,052,574
Other Financing Sources (Uses)				
Transfers out	(323,911)	(322,298)	(285,903)	36,395
Other	-	-	(16,819)	(16,819)
Total Other Financing Sources (Uses)	(323,911)	(322,298)	(302,722)	19,576
Net Change In Fund Balances	(400,384)	385,950	1,458,100	1,072,150
Fund Balances, July 1	3,017,882	3,017,882	3,017,882	-
Fund Balances, June 30	\$ 2,617,498	\$ 3,403,832	\$ 4,475,982	\$ 1,072,150

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2006

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
Assets		
Cash equivalents and deposits (Note B)	<u>\$ 36,503</u>	<u>\$ 117,729</u>
Liabilities		
Due to student groups	<u>-</u>	<u>\$ 117,729</u>
Net Assets		
Held in trust for: Individuals and organizations	<u>\$ 36,503</u>	

See accompanying notes to basic financial statements.

KENOWA HILLS PUBLIC SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the year ended June 30, 2006

	Private Purpose Trust Fund
Additions	
Interest earnings	\$ 617
Deductions	
Endowment activities - scholarships	<u>2,241</u>
Change In Net Assets	(1,624)
Net Assets, Beginning of Year	<u>38,127</u>
Net Assets, End of Year	<u><u>\$ 36,503</u></u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Note A – Summary of Significant Accounting Policies

Kenowa Hills Public Schools was organized under the School Code of the State of Michigan and services a population of approximately 3,563 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Kenowa Hills Public Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-Wide and Fund Financial Statements

District-Wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the District's only major fund. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Athletics Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus. The District presently maintains scholarship funds for the benefit of students.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Kenowa Hills Public Schools has also adopted budgets for its Special Revenue Funds. A school district's Budget Appropriations Act (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Kenowa Hills Public Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Assistant Superintendent for Business to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the General Fund consist of teaching and custodial supplies. Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and additions	40-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

9. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Early Retirement Incentive/Accumulated Sick Leave

Early retirement incentive and accumulated sick leave at June 30, 2006 have been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2006, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive and accumulated sick leave amounted to \$436,572 and \$463,098, respectively.

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

12. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

13. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal obligation repurchase agreements.
- Banker's acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools.

Balances at June 30, 2006 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Assets:	
Governmental activities	\$ 4,510,762
Fiduciary Funds:	
Agency Fund	<u>154,232</u>
	<u>\$ 4,664,994</u>

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Cash Equivalents and Deposits

Depositories actively used by the District during the year are detailed as follows:

1. Chemical Bank West
2. Mercantile Bank
3. Chase J.P. Morgan Bank, N.A.

Cash equivalents consist of bank public funds checking accounts. Deposits consist of certificates of deposit.

June 30, 2006 balances are detailed as follows:

Cash equivalents	\$ 4,663,994
Deposits	<u>1,000</u>
	<u>\$ 4,664,994</u>

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$4,664,994 and the bank balance was \$6,088,024. Of the bank balance, \$206,646 was covered by federal depository insurance and \$5,881,378 was uninsured.

Investments

As of June 30, 2006 the District had no surplus funds that were classified as investments under GASB Statement No. 40. The District's policies to minimize investment risk are as follows:

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by law.

Interest Rate Risk

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.

Concentration of Credit Risk

The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

Foreign Currency Risk

The District is not authorized to invest in investments which have this type of risk.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2005 ad valorem State Education Taxes generated within the Kenowa Hills Public School District, and paid to the State of Michigan, totaled \$5,928,758.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2005 and September, 2005. The 2005-06 "Foundation Allowance" for Kenowa Hills Public Schools was \$7,219 for 3,561 "Full Time Equivalent" students, generating \$16,021,380 in state aid payments to the District, of which \$2,945,854 was paid to the District in July and August, 2006 and included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund of the District.

Property taxes for the District are levied July 1 by the City of Walker and the Charter Townships of Alpine, Plainfield and Tallmadge and the Township of Wright. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Kent and Ottawa, through their Delinquent Tax Revolving Fund, advance all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

Year	General Fund	Debt Service Fund	Total
2005	\$ 11,348	\$ 7,687	\$ 19,035
2004	20,527	4,086	24,613
2003	97,531	19,872	117,403
	<u>\$ 129,406</u>	<u>\$ 31,645</u>	<u>\$ 161,051</u>

Taxes uncollected after three years from the date of levy, unless material in amount, are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

As Kenowa Hills Public Schools' electors had previously (June 8, 1992) approved an operating millage extension, the 18 mill non-homestead property tax was levied in the District for 2005.

The District levied 3.60 mills in 2005 for debt service purposes.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases are limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage" nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

Note D – Interfund Receivables/Payables and Transfers

Amounts due from (to) other funds representing interfund receivables and payables from other expenditures not yet reimbursed at June 30, 2006, are detailed as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund		
Special Revenue Funds:		
Food Service Fund	\$ 5,570	\$ 6,730
Special Revenue Funds		
Food Service Fund:		
General Fund	6,730	5,570
 Total All Funds	<u>\$ 12,300</u>	<u>\$ 12,300</u>

Transfers between funds during the year ended June 30, 2006 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Special Revenue Funds:		
Food Service Fund	\$ —	\$ 6,730
Athletics Fund	—	279,173
Total General Fund	—	285,903
Special Revenue Funds		
Food Service Fund:		
General Fund	6,730	—
Athletics Fund:		
General Fund	279,173	—
Total Special Revenue Funds	<u>285,903</u>	<u>—</u>
 Total All Funds	<u>\$ 285,903</u>	<u>\$ 285,903</u>

The General Fund transfer to the Food Service Fund was made to allocate at-risk state aid. The General Fund transfer to the Athletics Fund was made to pay the General Fund share of the District's athletics program for the fiscal year.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balances July 1, 2005	Additions	Deductions	Balances June 30, 2006
Capital assets not depreciated:				
Land	\$ 1,108,000	\$ —	\$ —	\$ 1,108,000
Capital assets being depreciated:				
Land improvements	1,186,227	—	—	1,186,227
Buildings and additions	38,426,954	—	—	38,426,954
Furniture and equipment	1,658,157	5,850	—	1,664,007
Vehicles	2,278,089	327,676	105,957	2,499,808
	<u>44,657,427</u>	<u>\$ 333,526</u>	<u>\$ 105,957</u>	<u>44,884,996</u>
Totals at historical cost				
	<u>44,657,427</u>	<u>\$ 333,526</u>	<u>\$ 105,957</u>	<u>44,884,996</u>
Less accumulated depreciation for:				
Land improvements	527,460	\$ 48,433	\$ —	575,893
Buildings and additions	10,840,655	874,179	—	11,687,834
Furniture and equipment	1,239,748	88,479	—	1,328,227
Vehicles	1,344,203	177,803	105,957	1,416,049
	<u>13,952,066</u>	<u>\$1,161,894</u>	<u>\$ 105,957</u>	<u>15,008,003</u>
Total accumulated depreciation				
	<u>13,952,066</u>	<u>\$1,161,894</u>	<u>\$ 105,957</u>	<u>15,008,003</u>
Net Capital Assets	<u>\$ 30,705,361</u>			<u>\$ 29,876,993</u>

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 894,658
Supporting services	232,379
Community services	9,295
Food service	15,686
Athletics	9,876
	<u>\$ 1,161,894</u>

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Note F – Long-term Debt

Amounts available and to be provided for outstanding long-term debt at June 30, 2006 are summarized as follows:

	Bond Issues	Early Retirement Incentive	Accumulated Sick Leave	Total
Amount Available For Retirement Of Long-Term Debt				
Debt Service Funds	\$ 486,736	\$ —	\$ —	\$ 486,736
Amounts To Be Provided For Retirement Of Long-Term Debt				
General Fund	—	436,572	463,098	899,670
Debt Service Funds	33,888,264	—	—	33,888,264
Total Amounts Available and To Be Provided	\$ 34,375,000	\$ 436,572	\$ 463,098	\$ 35,274,670

Changes in long-term debt for the year ended June 30, 2006 are summarized as follows:

	Debt Outstanding July 1, 2005	Debt Added	Debt Retired	Debt Outstanding June 30, 2006
General obligation bonds:				
June 1, 1996	\$ 1,425,000	\$ —	\$ 1,425,000	\$ —
March 17, 2005 Refunding	34,490,000	—	115,000	34,375,000
Early retirement incentive	627,370	65,009	255,807	436,572
Accumulated sick leave	405,078	110,212	52,192	463,098
	\$ 36,947,448	\$ 175,221	\$ 1,847,999	\$ 35,274,670

Long-term bonds outstanding at June 30, 2006 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
\$34,490M General Obligation Refunding Bonds				
March 17, 2005:				
Annual maturities of \$1,190M to \$2,370M	May 1, 2026	3.25 – 5.00	<u>\$ 34,375,000</u>	<u>\$ 1,915,000</u>

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

The annual requirements to pay principal and interest on long-term bonds outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2007	\$ 1,915,000	\$ 1,609,162	\$ 3,524,162
2008	1,670,000	1,532,563	3,202,563
2009	1,835,000	1,465,762	3,300,762
2010	1,895,000	1,406,125	3,301,125
2011	1,970,000	1,330,325	3,300,325
2012	2,050,000	1,251,525	3,301,525
2013	2,150,000	1,149,025	3,299,025
2014	2,255,000	1,041,525	3,296,525
2015	2,370,000	928,775	3,298,775
2016	1,190,000	810,275	2,000,275
2017	1,250,000	753,750	2,003,750
2018	1,310,000	691,250	2,001,250
2019	1,375,000	625,750	2,000,750
2020	1,445,000	557,000	2,002,000
2021	1,520,000	484,750	2,004,750
2022	1,590,000	408,750	1,998,750
2023	1,670,000	329,250	1,999,250
2024	1,750,000	245,750	1,995,750
2025	1,760,000	158,250	1,918,250
2026	1,405,000	70,250	1,475,250
	<u>\$ 34,375,000</u>	<u>\$ 16,849,812</u>	<u>\$ 51,224,812</u>

Note G – Retirement Plan

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2006 was \$16,444,994. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPSERS plan. The contribution rate was 14.87% for the fiscal year ending September 30, 2005 and 16.34% for the fiscal year beginning October 1, 2005. The District's contributions to the plan for the fiscal years ended June 30, 2006, 2004 and 2005 were \$2,660,525, \$2,487,982 and \$2,400,514, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPSERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2004 (the latest reporting date available expressed as \$ in millions) for the MPSERS as a whole, determined through an actuarial valuation performed as of that date, was \$46,317. The MPSERS' net assets available for benefits on that date were \$38,784 leaving an unfunded pension benefit obligation of \$7,533. Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2005 Annual Report of the MPSERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

The total actuarial accrued liability (expressed as \$ in millions) increased by \$1,548 from September 30, 2003 to September 30, 2004. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 5 years for members of the Basic Retirement Plan and 3 years for members of the MIP Retirement Plan.

Post-employment benefits for health, dental and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

KENOWA HILLS PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Note H – Risk Management and Benefits

The District is a member of the SET-SEG Incorporated Insurance Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2006, there were no material pending claims against the District. The District paid \$117,364 in premiums to the Fund for the year ended June 30, 2006.

The District is also a member of the SET-SEG Incorporated Workers' Compensation Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2006, there were no material pending claims against the District. The District paid \$102,843 in premiums to the Fund for the year ended June 30, 2006.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note I – Stewardship, Compliance and Accountability

The following District fund had actual expenditures exceed final budgeted expenditures for the year ended June 30, 2006:

	Budget	Actual	Unfavorable Variance
Food Service Special Revenue Fund	\$ 1,248,700	\$ 1,262,476	\$ 13,776

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Balance Sheet
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash	\$ 400	\$ 400
Cash equivalents	3,908,977	2,588,372
Receivables:		
Taxes	129,406	354,617
Accounts	-	5,136
Due from other funds	5,570	7,440
Due from other governmental units	3,666,908	3,602,986
Inventory	75,492	73,169
Total Assets	<u><u>\$ 7,786,753</u></u>	<u><u>\$ 6,632,120</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 503,164	\$ 590,268
Due to other funds	6,730	53,012
Due to other governmental units	660,368	569,878
Salaries payable	1,481,314	1,509,895
Deferred revenue	659,195	891,185
Total Liabilities	<u>3,310,771</u>	<u>3,614,238</u>
Fund Balances		
Unreserved:		
Undesignated	<u>4,475,982</u>	<u>3,017,882</u>
Total Liabilities and Fund Balances	<u><u>\$ 7,786,753</u></u>	<u><u>\$ 6,632,120</u></u>

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2006 and 2005

	2006	2005
Local sources:		
Property taxes:		
Current property taxes	\$ 10,429,716	\$ 9,896,311
Delinquent property taxes	79,125	31,465
Other property taxes	4,438	10,476
Interest on delinquent taxes	23,651	15,699
	<u>10,536,930</u>	<u>9,953,951</u>
Interest earnings:		
Interest on deposits and investments	244,401	71,264
Other local revenue:		
Adult/community education fees	70,089	70,497
Driver education fees	51,570	54,455
Preschool/childcare fees	66,389	57,154
Transportation fees	20,683	-
Copy center fees	53,696	43,254
Class fees	67,643	55,116
Rental of school facilities	57,911	37,125
Donations	7,565	4,246
Telephone commission reimbursements	46,337	8,542
Beverage consortium commissions	74,239	67,809
Sale of school property	2,559	4,347
Insurance refunds	85,209	104,516
Refunds of prior years expenditures	42,116	56,830
Miscellaneous	34,998	23,242
	<u>681,004</u>	<u>587,133</u>
Total local sources	11,462,335	10,612,348
State sources:		
State school aid	15,971,116	16,396,729
School improvement	2,741	2,741
Total state sources	<u>15,973,857</u>	<u>16,399,470</u>
Federal sources:		
Title I	162,985	184,497
Title I - migrant	50,373	44,571
Title IIA	119,164	58,953
Title IID	3,647	931
Title III	21,100	19,000
Title V	3,458	3,112
Drug free schools	7,460	7,785
I.D.E.A. program	635,588	658,597
Medicaid - school based	2,210	7,209
Literacy grant	480	-
Total federal sources	<u>1,006,465</u>	<u>984,655</u>
Interdistrict sources:		
Special education - county	1,607,068	1,520,336
Special education - transportation	503,670	684,625
Special education - local school districts	34,093	67,651
Special education - itinerants	93,038	-
Durant settlement reimbursements	11,606	24,343
Medicaid fee for service	115,385	93,745
Career preparation	-	21,500
Total interdistrict sources	<u>2,364,860</u>	<u>2,412,200</u>
Total Revenues	<u><u>\$ 30,807,517</u></u>	<u><u>\$ 30,408,673</u></u>

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries:		
Teachers	\$ 3,990,948	\$ 4,408,694
Other professionals	38,833	38,059
Teaching assistants	388,887	398,252
Substitutes	141,786	122,199
Severance pay	5,636	11,355
Employee benefits:		
Employee insurance	955,863	976,938
Early retirement incentive	6,357	17,033
Tuition reimbursement	32,998	39,010
Retirement	738,045	726,183
Social Security	348,559	382,831
Workers' compensation insurance	10,613	8,054
Unemployment compensation	2,318	-
Cash in lieu of benefits	50,182	55,452
Local travel	3,833	3,400
Workshops and conferences	1,792	7,317
Teaching supplies	107,044	117,366
Textbooks	41,698	61,107
Other supplies and materials	1,390	1,153
New equipment and furniture	29,191	9,398
Miscellaneous	3,690	1,520
	6,899,663	7,385,321
Middle school:		
Salaries:		
Teachers	1,345,537	1,452,995
Other professionals	25,413	21,401
Teaching assistants	29,962	32,413
Substitutes	52,479	43,018
Severance pay	16,415	1,161
Employee benefits:		
Employee insurance	303,127	298,742
Tuition reimbursement	8,067	6,744
Retirement	235,288	229,643
Social Security	112,508	120,133
Workers' compensation insurance	3,405	2,486
Unemployment compensation	1,256	2,058
Cash in lieu of benefits	10,477	14,310
Local travel	427	450
Workshops and conferences	742	1,557
Teaching supplies	35,590	56,729
Textbooks	7,829	10,384
Other supplies and materials	3,802	-
New equipment and furniture	35,219	28,155
Dues and fees	379	359
Miscellaneous	2,400	2,611
	2,230,322	2,325,349

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
High school:		
Salaries:		
Teachers	\$ 2,496,537	\$ 2,427,374
Other professionals	61,894	61,618
Teaching assistants	42,709	78,162
Substitutes	38,407	57,108
Employee benefits:		
Employee insurance	579,749	517,684
Tuition reimbursement	11,244	15,378
Retirement	426,370	385,733
Social Security	201,397	200,733
Workers' compensation insurance	6,119	4,225
Unemployment compensation	1,609	1,474
Cash in lieu of benefits	20,934	20,181
Dual enrollment tuition	2,339	2,210
Local travel	481	315
Workshops and conferences	1,912	4,595
Tuition	37,393	20,393
Teaching supplies	81,015	107,958
Textbooks	8,172	9,565
Other supplies and materials	30,632	31,608
New equipment and furniture	16,108	180,469
Dues and fees	-	1,000
Miscellaneous	9,100	11,481
	4,074,121	4,139,264
Preschool:		
Salaries:		
Teachers	40,928	38,556
Teaching assistants	9,486	11,083
Substitutes	563	858
Employee benefits:		
Employee insurance	842	1,927
Retirement	8,284	7,451
Social Security	4,168	4,020
Workers' compensation insurance	126	81
Cash in lieu of benefits	3,468	2,052
Local travel	104	79
Workshops and conferences	312	438
Teaching supplies	1,820	1,575
Miscellaneous	261	207
	70,362	68,327
Total basic programs	13,274,468	13,918,261
Added needs:		
Special education:		
Salaries:		
Teachers	1,186,056	1,189,360
Teaching assistants	131,348	148,633
Substitutes	31,625	23,984

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Special education: (Continued)		
Employee benefits:		
Employee insurance	\$ 314,212	\$ 282,526
Retirement	218,159	200,177
Social Security	103,338	104,733
Workers' compensation insurance	3,131	2,209
Cash in lieu of benefits	12,532	18,790
Purchased services	975	15,050
Local travel	491	996
Workshops and conferences	888	2,139
Teaching supplies	10,820	12,054
Textbooks	4,129	4,088
Office supplies	150	200
Miscellaneous	513	607
	<u>2,018,367</u>	<u>2,005,546</u>
Compensatory education:		
Salaries:		
Teachers	435,574	404,104
Teaching assistants	122,663	105,512
Substitutes	23,126	24,882
Employee benefits:		
Employee insurance	104,709	83,717
Medical reimbursement	15	140
Retirement	93,065	78,002
Social Security	43,781	40,340
Workers' compensation insurance	1,369	866
Cash in lieu of benefits	14,703	8,296
Instructional services	22,015	5,800
Local travel	1,043	631
Workshops and conferences	7,556	6,333
Teaching supplies	10,387	7,938
Miscellaneous	1,215	1,585
	<u>881,221</u>	<u>768,146</u>
Career and technology education:		
Salaries:		
Teachers	131,227	143,983
Teaching assistants	16,423	-
Other professionals	4,963	9,032
Substitutes	1,948	2,548
Employee benefits:		
Employee insurance	31,047	27,280
Retirement	25,258	22,801
Social Security	11,922	11,849
Workers' compensation insurance	360	249
Cash in lieu of benefits	2,052	-
Local travel	391	779
Workshops and conferences	922	7,286
Teaching supplies	11,082	36,027
Miscellaneous supplies	2,211	16,202
New equipment and furniture	3,410	11,066
	<u>243,216</u>	<u>289,102</u>
Total added needs	3,142,804	3,062,794

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Adult basic education:		
Salaries:		
Teachers	\$ 12,129	\$ 8,639
Teaching assistants	591	-
Employee benefits:		
Retirement	1,992	1,275
Social Security	973	661
Workers' compensation insurance	29	14
Unemployment	307	408
Contracted services	8,607	5,700
Total adult basic education	24,628	16,697
Pupil services:		
Attendance services:		
Administrative assistant salary	40,304	39,705
Employee benefits:		
Employee insurance	9,533	9,054
Retirement	6,495	5,818
Social Security	3,137	3,108
Workers' compensation insurance	95	65
Cash in lieu of benefits	1,205	1,157
	60,769	58,907
Guidance services:		
Salaries:		
Counselors	324,363	326,199
Clerical	94,892	91,553
Severance pay	-	630
Employee benefits:		
Employee insurance	96,962	80,491
Early retirement incentive	-	6,790
Tuition reimbursement	877	-
Retirement	67,735	61,126
Social Security	32,080	31,709
Workers' compensation insurance	1,227	867
Cash in lieu of benefits	3,000	5,280
Local travel	281	143
Workshops and conferences	177	1,192
Supplies	9,782	10,187
Miscellaneous	459	-
	631,835	616,167
Health services:		
Tuition reimbursement	734	854
Contracted services	32,474	22,937
Local travel	449	372
Workshops and conferences	-	50
Miscellaneous supplies	399	535
	34,056	24,748
Psychological services:		
Local travel	455	408
Miscellaneous supplies	2,636	1,844
	3,091	2,252

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Speech pathology services:		
Speech pathologists salaries	\$ -	\$ 5,528
Employee benefits:		
Tuition reimbursement	1,196	-
Social Security	-	256
Workers' compensation insurance	-	9
Contracted services	524	-
Local travel	900	743
Workshops and conferences	155	754
Supplies	1,814	2,160
	<u>4,589</u>	<u>9,450</u>
Social worker services:		
Local travel	1,386	1,358
Workshops and conferences	359	542
Testing supplies	2,002	2,585
Dues and fees	100	100
	<u>3,847</u>	<u>4,585</u>
Teacher consultant services:		
Teacher consultants salaries	42,374	42,225
Employee benefits:		
Employee insurance	6,969	6,724
Retirement	6,909	6,244
Social Security	3,193	3,358
Workers' compensation insurance	97	68
Local travel	820	804
Workshops and conferences	265	-
Teaching supplies	280	587
	<u>60,907</u>	<u>60,010</u>
Other pupil services:		
Salaries:		
Instructional consultant	-	6,932
Teaching assistants	3,345	2,886
Substitutes	150	-
Employee benefits:		
Retirement	571	1,453
Social Security	261	748
Workers' compensation insurance	8	16
Instructional program improvement	5,739	7,093
Workshops and conferences	1,515	2,057
Teaching supplies	6,896	7,349
Miscellaneous	4,112	93
	<u>22,597</u>	<u>28,627</u>
Total pupil services	821,691	804,746
Instructional staff services:		
Improvement of instruction:		
Substitutes salaries	57,170	62,267
Employee benefits:		
Retirement	8,722	8,856
Social Security	4,371	4,733
Workers' compensation insurance	131	100

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Improvement of instruction: (Continued)		
Purchased services	\$ 36,385	\$ 48,400
Instructional program improvement	69,536	46,542
Workshops and conferences	32,189	29,437
Teaching supplies	10,024	12,496
Miscellaneous	497	(885)
	<u>219,025</u>	<u>211,946</u>
Educational media services:		
Salaries:		
Librarians	254,105	272,999
Teaching assistants	82,995	80,338
Employee benefits:		
Employee insurance	57,852	58,185
Retirement	54,661	52,026
Social Security	26,265	27,390
Workers' compensation insurance	793	577
Cash in lieu of benefits	7,764	6,840
Teaching supplies	5,880	8,633
Library books and supplies	35,264	40,818
Periodicals	2,242	2,318
Miscellaneous supplies	887	864
Dues and fees	28,397	27,771
	<u>557,105</u>	<u>578,759</u>
Supervision and direction of instruction:		
Salaries:		
Supervisor	107,156	103,250
Clerical	54,422	52,265
Employee benefits:		
Employee insurance	34,684	29,270
Tuition reimbursement	-	828
Retirement	26,059	22,718
Social Security	11,459	11,332
Workers' compensation insurance	518	354
Local travel	1,493	1,434
Workshops and conferences	6,496	8,492
Supplies	1,297	1,459
Office supplies	749	950
Miscellaneous	50	50
	<u>244,383</u>	<u>232,402</u>
Total instructional staff services	1,020,513	1,023,107
General administrative services:		
Board of education:		
Board members salaries	4,500	2,318
Social Security	344	177
Legal services	42,683	103,386
Audit services	25,375	26,084
Professional consulting services	7,925	19,725
Local travel	762	408
Workshops and conferences	5,758	3,565

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Board of education: (Continued)		
Dues and fees	\$ 5,002	\$ 5,247
Miscellaneous	1,200	2,045
	<u>93,549</u>	<u>162,955</u>
Executive administration:		
Salaries:		
Superintendent	119,000	117,905
Assistant superintendent	95,877	94,900
Clerical	134,745	126,752
Employee benefits:		
Employee insurance	38,323	53,210
Tuition reimbursement	-	2,178
Retirement	58,233	50,850
Social Security	24,896	23,688
Workers' compensation insurance	1,201	817
Unemployment	2,112	-
Cash in lieu of benefits	15,956	13,880
Local travel	5,518	3,386
Workshops and conferences	2,168	3,402
Internet services	2,388	2,388
Printing and binding	2,048	2,398
Equipment repair and maintenance	1,302	830
Office supplies	3,595	4,036
New equipment and furniture	2,490	180
Dues and fees	2,489	2,635
Miscellaneous	2,489	1,918
	<u>514,830</u>	<u>505,353</u>
Total general administrative services	608,379	668,308
School administrative services:		
Office of the principal:		
Salaries:		
Principals	804,385	796,177
Clerical	427,272	436,474
Severance pay	6,553	692
Employee benefits:		
Employee insurance	205,836	219,977
Tuition reimbursement	828	11,054
Retirement	192,542	167,841
Social Security	95,795	95,124
Workers' compensation insurance	4,054	2,862
Cash in lieu of benefits	23,157	17,209
Local travel	10,663	7,733
Workshops and conferences	1,208	3,670
Equipment repair and maintenance	11,085	1,219
Office supplies	3,826	4,732
New equipment and furniture	9,487	2,399
Dues and fees	19,576	18,700
Miscellaneous	91	12
	<u>1,816,358</u>	<u>1,785,875</u>
Total school administrative services	1,816,358	1,785,875

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Business services:		
Fiscal services:		
Salaries:		
Business manager	\$ 99,212	\$ 98,218
Accounting	146,161	139,808
Severance pay	-	456
Employee benefits:		
Employee insurance	23,061	7,643
Retirement	39,222	34,248
Social Security	18,709	18,146
Workers' compensation insurance	959	666
Cash in lieu of benefits	9,665	8,835
Purchased services	23,460	12,172
Local travel	1,338	1,262
Workshops and conferences	476	861
Printing and binding	48	57
Equipment repair and maintenance	111	129
Office supplies	2,568	5,559
New equipment and furniture	-	5,701
Dues and fees	155	158
Miscellaneous	235	105
	365,380	334,024
Internal services:		
Other salaries	72,507	71,008
Employee benefits:		
Employee insurance	16,419	21,234
Retirement	11,595	10,252
Social Security	5,609	5,524
Workers compensation insurance	260	116
Cash in lieu of benefits	1,588	1,525
Local travel	962	316
Equipment repair and maintenance	16,637	21,126
Miscellaneous supplies	14,656	10,187
Replacement equipment and furniture	475	31,654
	140,708	172,942
Other business services:		
Tax collection fees	2,048	1,877
Insurance and bonds	6,757	6,360
Other supplies and materials	-	15,115
Interest	2,824	1,734
Claims and judgements	153	878
Property tax refunds	80,152	168,868
Miscellaneous	200	157
	92,134	194,989
Total business services	598,222	701,955

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Operation and maintenance services:		
Operation and maintenance:		
Salaries:		
Supervisors	\$ 66,636	\$ 65,976
Drivers	-	1,637
Custodial	791,116	787,033
Severance pay	1,628	-
Employee benefits:		
Employee insurance	213,883	287,681
Physicals	395	1,184
Retirement	133,042	121,110
Social Security	65,672	65,243
Workers' compensation insurance	32,611	30,308
Unemployment compensation	2,383	3,040
Cash in lieu of benefits	3,868	2,301
Architect services	-	365
Professional services	275	490
Local travel	3,115	1,995
Workshops and conferences	842	20
Telephone	41,606	37,491
Water and sewer	62,041	57,905
Waste and trash disposal	23,288	21,698
Snow removal	48,310	52,930
Property and liability insurance	94,364	87,944
Land and building repair and maintenance	548,740	493,221
Equipment repair and maintenance	9,247	8,013
Vehicle repair and maintenance	841	-
Equipment rental	373	7,338
Heating	286,656	224,987
Electricity	372,416	357,525
Custodial supplies	71,410	44,436
Other supplies and materials	61,095	63,923
New equipment and furniture	6,436	5,708
Replacement equipment and furniture	8,982	5,319
Dues and fees	2,982	2,893
Miscellaneous	-	23
	2,954,253	2,839,737
Security services:		
Security salaries	62,068	61,464
Employee benefits:		
Employee insurance	14,120	24,800
Retirement	10,071	9,059
Social Security	4,870	4,795
Cash in lieu of benefits	1,380	-
	92,509	100,118
Total operation and maintenance services	3,046,762	2,939,855

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Pupil transportation services:		
Pupil transportation:		
Salaries:		
Supervisors	\$ 44,377	\$ 36,653
Drivers	478,732	529,049
Clerical	27,172	29,661
Assistants	64,327	58,634
Mechanics	57,860	66,398
Severance pay	-	3,294
Employee benefits:		
Employee insurance	50,031	47,678
Tuition reimbursement	3,905	3,255
Medical reimbursement	2,060	3,598
Retirement	105,831	104,484
Social Security	51,703	57,025
Workers' compensation insurance	18,527	13,918
Unemployment compensation	-	790
Cash in lieu of benefits	22,222	24,378
Local travel	43	265
Workshops and conferences	1,374	1,569
Pupil transportation	940	2,083
Printing and binding	18	133
Transportation insurance	23,000	23,000
Equipment repair and maintenance	534	613
Vehicle repair and maintenance	17,020	22,940
Gasoline, oil and grease	159,495	133,716
Tires, tubes and batteries	10,855	10,847
Vehicle repair parts	61,660	76,125
Other supplies and materials	5,412	9,068
New buses	327,676	-
Dues and fees	2,590	2,370
Miscellaneous	393	985
Total pupil transportation services	1,537,757	1,262,529
Central services:		
Communications services:		
Mailing and postage	45,307	46,577
Internet services	2,000	4,314
Advertising	897	2,053
Printing and binding	10,225	10,476
	58,429	63,420
Staff/personnel services:		
Employee benefits:		
Medical reimbursement	-	2,425
Other professional services	4,786	2,961
Other supplies and materials	1,926	709
	6,712	6,095
Technology services:		
Salaries:		
Director	62,544	60,955
Information management	170,711	172,632
Severance pay	-	432

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Technology services: (Continued)		
Employee benefits:		
Employee insurance	\$ 47,725	\$ 59,228
Retirement	37,314	33,609
Social Security	18,203	18,025
Workers' compensation insurance	548	379
Unemployment compensation	-	2,350
Cash in lieu of benefits	4,948	2,792
Data processing services	-	135
Local travel	277	192
Workshops and conferences	590	9,126
Internet services	54,720	54,720
Equipment repair and maintenance	465	45
Other supplies and materials	13,804	18,538
New equipment and furniture	85,298	7,428
Replacement equipment and furniture	-	15,753
	<u>497,147</u>	<u>456,339</u>
Total central services	562,288	525,854
Community services:		
Community recreation:		
Salaries:		
Director	58,595	14,936
Teachers	72,941	72,596
Clerical	-	42,912
Teaching assistants	21,764	19,848
Employee benefits:		
Employee insurance	792	3,880
Retirement	22,062	20,962
Social Security	11,988	11,569
Workers' compensation insurance	471	326
Unemployment	952	2,932
Cash in lieu of benefits	3,600	1,988
Local travel	345	175
Workshops and conferences	-	200
Field trips	961	915
Telephone	-	272
Printing and duplicating	709	323
Vehicle insurance	2,890	4,000
Equipment repair and maintenance	-	156
Vehicle repair and maintenance	460	-
Vehicle rental	5,877	6,722
Gasoline, oil and grease	2,444	2,237
Supplies	10,864	7,635
Miscellaneous	10,602	8,130
	<u>228,317</u>	<u>222,714</u>
Performing Arts Center:		
Salaries:		
Director	47,553	44,965
Teaching assistants	1,458	1,250

(Continued)

KENOWA HILLS PUBLIC SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Performing Arts Center: (Continued)		
Employee benefits:		
Employee insurance	\$ 5,105	\$ 6,618
Retirement	7,709	6,508
Social Security	3,732	3,528
Workers' compensation insurance	113	74
Pupil services	7,269	3,387
Local travel	280	291
Printing	66	92
Teaching supplies	3,980	4,737
New equipment and furniture	3,933	2,966
	<u>81,198</u>	<u>74,416</u>
Total community services	309,515	297,130
Interdistrict:		
Special education - tuition	385,823	441,582
Special education - transportation	627,527	606,440
Special education - itinerants	1,236,125	1,278,622
Alternative education	33,835	29,939
	<u>2,283,310</u>	<u>2,356,583</u>
Total interdistrict	2,283,310	2,356,583
Total Expenditures	<u><u>\$ 29,046,695</u></u>	<u><u>\$ 29,363,694</u></u>

NONMAJOR FUNDS

KENOWA HILLS PUBLIC SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2006

	Special Revenue		Debt Service	Total
	Food Service	Athletics	1996	
Assets				
Cash	\$ 650	\$ -	\$ -	\$ 650
Cash equivalents	116,011	-	485,774	601,785
Taxes receivable	-	-	31,645	31,645
Due from other funds	6,730	-	-	6,730
Due from other governmental units	11,021	-	962	11,983
Inventory	16,796	-	-	16,796
Total Assets	<u>\$ 151,208</u>	<u>\$ -</u>	<u>\$ 518,381</u>	<u>\$ 669,589</u>
Liabilities and Fund Balances				
Liabilities				
Due to other funds	\$ 5,570	\$ -	\$ -	\$ 5,570
Deferred revenue	17,044	-	31,645	48,689
Total Liabilities	<u>22,614</u>	<u>-</u>	<u>31,645</u>	<u>54,259</u>
Fund Balances				
Reserved for debt service	-	-	486,736	486,736
Unreserved:				
Undesignated	128,594	-	-	128,594
Total Fund Balances	<u>128,594</u>	<u>-</u>	<u>486,736</u>	<u>615,330</u>
Total Liabilities and Fund Balances	<u>\$ 151,208</u>	<u>\$ -</u>	<u>\$ 518,381</u>	<u>\$ 669,589</u>

KENOWA HILLS PUBLIC SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2006

	Special Revenue		Debt Service	
	Food Service	Athletics	1996	Total
Revenues				
Local sources:				
Property taxes	\$ -	\$ -	\$ 3,508,812	\$ 3,508,812
Interest earnings	6,962	-	66,350	73,312
Sales and admissions	733,696	139,057	-	872,753
Other local sources	-	-	5,559	5,559
Total local sources	740,658	139,057	3,580,721	4,460,436
State sources	81,797	-	-	81,797
Federal sources	481,840	-	-	481,840
Total Revenues	1,304,295	139,057	3,580,721	5,024,073
Expenditures				
Current:				
Food service	1,262,476	-	-	1,262,476
Athletics	-	418,230	-	418,230
Debt service:				
Principal repayment	-	-	1,540,000	1,540,000
Interest and fiscal charges	-	-	1,898,306	1,898,306
Total Expenditures	1,262,476	418,230	3,438,306	5,119,012
Excess (Deficiency) of Revenues Over Expenditures	41,819	(279,173)	142,415	(94,939)
Other Financing Sources				
Transfers in	6,730	279,173	-	285,903
Net Change In Fund Balances	48,549	-	142,415	190,964
Fund Balances, July 1	80,045	-	344,321	424,366
Fund Balances, June 30	\$ 128,594	\$ -	\$ 486,736	\$ 615,330

KENOWA HILLS PUBLIC SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues			
Local sources:			
Interest earnings	\$ 2,000	\$ 6,962	\$ 4,962
Sales and admissions	739,600	733,696	(5,904)
Total local sources	741,600	740,658	(942)
State sources	81,000	81,797	797
Federal sources	421,000	481,840	60,840
Total Revenues	<u>1,243,600</u>	<u>1,304,295</u>	<u>60,695</u>
Expenditures			
Current:			
Food service	<u>1,248,700</u>	<u>1,262,476</u>	<u>(13,776)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,100)</u>	<u>41,819</u>	<u>46,919</u>
Other Financing Sources			
Transfers in	<u>31,091</u>	<u>6,730</u>	<u>(24,361)</u>
Net Change In Fund Balances	25,991	48,549	22,558
Fund Balances, July 1	<u>80,045</u>	<u>80,045</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 106,036</u></u>	<u><u>\$ 128,594</u></u>	<u><u>\$ 22,558</u></u>

KENOWA HILLS PUBLIC SCHOOLS
Athletics Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues			
Local sources:			
Sales and admissions	<u>\$ 132,600</u>	<u>\$ 139,057</u>	<u>\$ 6,457</u>
Expenditures			
Current:			
Athletics	<u>424,276</u>	<u>418,230</u>	<u>6,046</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(291,676)</u>	<u>(279,173)</u>	<u>12,503</u>
Other Financing Sources			
Transfers in	<u>291,676</u>	<u>279,173</u>	<u>(12,503)</u>
Net Change In Fund Balances	-	-	-
Fund Balances, July 1	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

SPECIAL REVENUE FUNDS

Food Service—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

Athletics—to account for activity receipts and General Fund contributions used in administering the athletic program of the District.

KENOWA HILLS PUBLIC SCHOOLS
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash	\$ 650	\$ 650
Cash equivalents	116,011	16,773
Due from other funds	6,730	53,012
Due from other governmental units	11,021	10,395
Inventory	<u>16,796</u>	<u>22,575</u>
Total Assets	<u><u>\$ 151,208</u></u>	<u><u>\$ 103,405</u></u>
 Liabilities and Fund Balances		
Liabilities		
Due to other funds	\$ 5,570	\$ 6,485
Deferred revenue	<u>17,044</u>	<u>16,875</u>
Total Liabilities	<u>22,614</u>	<u>23,360</u>
Fund Balances		
Unreserved:		
Undesignated	<u>128,594</u>	<u>80,045</u>
Total Liabilities and Fund Balances	<u><u>\$ 151,208</u></u>	<u><u>\$ 103,405</u></u>

KENOWA HILLS PUBLIC SCHOOLS
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2006 and 2005

	2006	2005
Revenues		
Local sources:		
Sales and admissions:		
Children's lunches	\$ 476,702	\$ 479,051
Adult lunches and banquets	16,381	12,634
Milk	4,475	5,028
Ala carte	204,356	206,204
Other	31,782	28,998
	<u>733,696</u>	<u>731,915</u>
Interest earnings:		
Interest on investments	6,962	2,243
Total local sources	<u>740,658</u>	<u>734,158</u>
State sources	81,797	80,123
Federal sources	<u>481,840</u>	<u>411,736</u>
Total Revenues	<u>1,304,295</u>	<u>1,226,017</u>
Expenditures		
Current:		
Food service:		
Food service salaries	462,727	470,208
Employee benefits:		
Employee insurance	27,412	9,179
Retirement	73,727	68,194
Social security	37,550	40,517
Workers' compensation insurance	15,522	10,034
Cash in lieu of benefits	36,379	40,740
Contracted services	12,827	12,167
Audit services	1,875	-
Local travel	428	595
Workshops and conferences	535	180
Printing and binding	1,489	-
Equipment rental	3,645	4,153
Food	489,514	466,911
Milk	83,909	73,548
Office supplies	911	1,314
Other supplies and materials	6,760	3,746
New equipment and furniture	3,702	24,224
Miscellaneous	3,564	7,777
	<u>1,262,476</u>	<u>1,233,487</u>
Total Expenditures	<u>1,262,476</u>	<u>1,233,487</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>41,819</u>	<u>(7,470)</u>
Other Financing Sources		
Transfers in	<u>6,730</u>	<u>31,072</u>
Net Change In Fund Balances	48,549	23,602
Fund Balances, July 1	<u>80,045</u>	<u>56,443</u>
Fund Balances, June 30	<u><u>\$ 128,594</u></u>	<u><u>\$ 80,045</u></u>

KENOWA HILLS PUBLIC SCHOOLS
Athletics Special Revenue Fund
Comparative Balance Sheet
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Liabilities and Fund Balances		
Liabilities	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Fund Balances		
Unreserved:		
Undesignated	<u><u>-</u></u>	<u><u>-</u></u>
Total Liabilities and Fund Balances	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

KENOWA HILLS PUBLIC SCHOOLS
Athletics Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2006 and 2005

	2006	2005
Revenues		
Local sources:		
Sales and admissions:		
Admissions	\$ 68,405	\$ 67,683
Participation fees	48,290	44,986
Tournament revenue	21,871	35,284
Miscellaneous	491	205
	<u>139,057</u>	<u>148,158</u>
Interest earnings:		
Interest on investments	<u>-</u>	<u>4</u>
Total Revenues	<u>139,057</u>	<u>148,162</u>
Expenditures		
Current:		
Athletics:		
Salaries:		
Coaches	211,152	207,327
Other	29,808	20,749
Employee benefits:		
Employee insurance	801	-
Retirement	36,760	31,575
Social Security	18,272	17,393
Workers' compensation insurance	556	365
Officials	22,891	25,254
Local travel	163	1,887
Workshops and conferences	420	309
Printing and binding	1,910	1,636
Equipment repair and maintenance	6,024	6,332
Other rentals	6,160	5,980
Other purchased services	9,468	18,842
Office supplies	499	724
Other supplies	47,281	54,684
New furniture and equipment	12,442	6,650
Dues and fees	12,194	14,892
Miscellaneous	1,429	1,000
Total Expenditures	<u>418,230</u>	<u>415,599</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(279,173)</u>	<u>(267,437)</u>
Other Financing Sources		
Transfers in	<u>279,173</u>	<u>267,437</u>
Net Change In Fund Balances	-	-
Fund Balances, July 1	<u>-</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

AGENCY FUND

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

KENOWA HILLS PUBLIC SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2006

	<u>Balances</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2006</u>
Assets				
Cash equivalents	<u>\$ 77,946</u>	<u>\$ 199,987</u>	<u>\$ 160,204</u>	<u>\$ 117,729</u>
Liabilities				
Due to student groups	<u>\$ 77,946</u>	<u>\$ 199,987</u>	<u>\$ 160,204</u>	<u>\$ 117,729</u>

OTHER INFORMATION

KENOWA HILLS PUBLIC SCHOOLS
Summary of 2005 Taxes Levied and Collected
For the year ended June 30, 2006

	Kent County		
	Cities of		
	Grand Rapids	Walker	Alpine
Taxable Valuations			
Operating	\$ 274,818	\$471,491,537	\$ 93,036,663
Debt Service	1,171,918	743,744,286	166,889,816
Rates (Mills)			
General Fund			
1996 Debt Service Fund			
Taxes Levied 2005 Rolls			
General Fund	\$ 4,947	\$ 8,429,060	\$ 1,674,659
1996 Debt Service Fund	3,938	2,498,950	560,743
	<u>8,885</u>	<u>10,928,010</u>	<u>2,235,402</u>
Taxes Uncollected 2005 Rolls			
General Fund	-	9,272	855
1996 Debt Service Fund	-	7,280	160
	<u>-</u>	<u>16,552</u>	<u>1,015</u>
Taxes Collected 2005 Rolls			
General Fund	4,947	8,419,788	1,673,804
1996 Debt Service Fund	3,938	2,491,670	560,583
	<u>8,885</u>	<u>10,911,458</u>	<u>2,234,387</u>
Delinquent Taxes Collected			
General Fund	-	58,889	2,862
1996 Debt Service Fund	-	11,499	572
	<u>-</u>	<u>70,388</u>	<u>3,434</u>
Total Taxes Collected			
General Fund	4,947	8,478,677	1,676,666
1996 Debt Service Fund	3,938	2,503,169	561,155
	<u>\$ 8,885</u>	<u>\$ 10,981,846</u>	<u>\$ 2,237,821</u>
Taxes Uncollected – June 30, 2006			
General Fund:			
2005	\$ -	\$ 9,272	\$ 855
2004	-	17,554	(12)
2003	-	74,524	15,504
	<u>-</u>	<u>101,350</u>	<u>16,347</u>
1996 Debt Service Fund:			
2005	-	7,280	160
2004	-	3,679	2
2003	-	14,943	3,095
	<u>-</u>	<u>25,902</u>	<u>3,257</u>
Total Taxes Uncollected	<u>\$ -</u>	<u>\$ 127,252</u>	<u>\$ 19,604</u>

Ottawa County			
Townships of			
Plainfield	Tallmadge	Wright	Total
\$ 187,382	\$ 6,248,804	\$12,030,798	\$ 583,270,002
1,276,878	47,098,194	27,945,199	988,126,291
			18.0000
			3.6000
			<u>21.6000</u>
\$ 3,365	\$ 112,479	\$ 216,554	\$ 10,441,064
4,341	158,250	93,893	3,320,115
<u>7,706</u>	<u>270,729</u>	<u>310,447</u>	<u>13,761,179</u>
176	741	304	11,348
33	157	57	7,687
<u>209</u>	<u>898</u>	<u>361</u>	<u>19,035</u>
3,189	111,738	216,250	10,429,716
4,308	158,093	93,836	3,312,428
<u>7,497</u>	<u>269,831</u>	<u>310,086</u>	<u>13,742,144</u>
2	1,684	1,265	64,702
1	337	480	12,889
<u>3</u>	<u>2,021</u>	<u>1,745</u>	<u>77,591</u>
3,191	113,422	217,515	10,494,418
4,309	158,430	94,316	3,325,317
<u>\$ 7,500</u>	<u>\$ 271,852</u>	<u>\$ 311,831</u>	<u>\$ 13,819,735</u>
\$ 176	\$ 741	\$ 304	\$ 11,348
96	842	2,047	20,527
52	4,778	2,673	97,531
<u>324</u>	<u>6,361</u>	<u>5,024</u>	<u>129,406</u>
33	157	57	7,687
20	203	182	4,086
11	1,238	585	19,872
<u>64</u>	<u>1,598</u>	<u>824</u>	<u>31,645</u>
<u>\$ 388</u>	<u>\$ 7,959</u>	<u>\$ 5,848</u>	<u>\$ 161,051</u>

**KENOWA HILLS
PUBLIC SCHOOLS**
Kent and Ottawa Counties, Michigan

Auditor's Report On Compliance
For Federal Grant Programs

For the year ended June 30, 2006

TABLE OF CONTENTS

KENOWA HILLS PUBLIC SCHOOLS

For the year ended June 30, 2006

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	1
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	3
Schedule of Expenditures of Federal Awards.....	6
Schedule of Findings and Questioned Costs.....	14
Notes to Schedule of Expenditures of Federal Awards.....	16

Hungerford, Aldrin,
Nichols & Carter, P.C.

C P A s A N D C O N S U L T A N T S

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

September 1, 2006

The Board of Education
Kenowa Hills Public Schools
Grand Rapids, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kenowa Hills Public Schools as of and for the year ended June 30, 2006, which collectively comprise Kenowa Hills Public School's basic financial statements and have issued our report thereon dated September 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kenowa Hills Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The Board of Education
Kenowa Hills Public Schools
September 1, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kenowa Hills Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Aldrin, Nichols & Barten, P.C.

Certified Public Accountants

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

September 1, 2006

The Board of Education
Kenowa Hills Public Schools
Grand Rapids, Michigan

Compliance

We have audited the compliance of Kenowa Hills Public Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Kenowa Hills Public School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kenowa Hills Public School's management. Our responsibility is to express an opinion on Kenowa Hills Public School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kenowa Hills Public School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kenowa Hills Public School's compliance with those requirements.

In our opinion, Kenowa Hills Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Kenowa Hills Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Kenowa Hills Public School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kenowa Hills Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated September 1, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively, comprise Kenowa Hills Public School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Aldine, Nichols & Herten, P.C.

Certified Public Accountants

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

KENOWA HILLS PUBLIC SCHOOLS

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
U.S. Department of Education		
Passed through Michigan Department of Education (MDE):		
Title I:	84.010	
0415300405		\$40,431
0515300405		144,066
0515300506		15,522
0615300506		<u>159,588</u>
Total Title I		<u>359,607</u>
Title I – Migrant:	84.011	
0618900506		<u>50,373</u>
Title IIA:	84.367	
0405200405		48,535
0505200405		10,418
0505200506		83,721
0605200506		<u>94,479</u>
Total Title IIA		<u>237,153</u>
Title IID:	84.318	
0542900405		931
0542900506		3,125
0642900506		<u>2,977</u>
Total Title IID		<u>7,033</u>
Title III:	84.365A	
0505800405		19,000
0605800506		<u>21,100</u>
Total Title III		<u>40,100</u>

(Continued)

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
\$13,739	\$40,431		\$13,739	
57,547	144,066		57,547	
		\$15,522	11,852	\$3,670
		147,463	42,285	105,178
71,286	184,497	162,985	125,423	108,848
	44,571	50,373	50,373	
37,397	48,535		37,397	
112	10,418		112	
		83,721	26,672	57,049
		35,443	15,464	19,979
37,509	58,953	119,164	79,645	77,028
(32)	931	32		
		3,125	1,084	2,041
		522	1,208	(686)
(32)	931	3,679	2,292	1,355
19,000	19,000		19,000	
		21,100		21,100
19,000	19,000	21,100	19,000	21,100

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**KENOWA HILLS PUBLIC SCHOOLS**

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
Title V:	84.298	
0402500405		\$2,849
0502500405		272
0502500506		1,961
0602500506		1,488
Total Title V		6,570
Total Passed Through MDE		700,836
Passed through Kent Intermediate School District (KISD):		
Safe and Drug Free Schools and Communities Act:	84.186	
052860405		4,817
062860506		2,643
Total Safe and Drug Free Schools and Communities Act		7,460
Special Education Cluster:		
I.D.E.A. – Flow Through:	84.027	
Flow Through – 0504500405		635,265
Flow Through – 0604500506		615,562
Total I.D.E.A. – Flow Through		1,250,827
I.D.E.A. – Preschool:	84.173	
Preschool – 0504600405		23,741
Preschool – 0604600506		20,026
Total I.D.E.A. – Preschool		43,767
Total Special Education Cluster		1,294,594
Total Passed Through KISD		1,302,054
Total U.S. Department of Education		2,002,890

(Continued)

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
\$2,180 263	\$2,849 263	\$9 1,961 1,488	\$2,180 272	\$1,961 1,488
2,443	3,112	3,458	2,452	3,449
130,206	311,064	360,759	279,185	211,780
	4,081	4,817 2,643	4,817 2,643	
—	4,081	7,460	7,460	—
218,655	635,265	615,562	218,655 615,562	
218,655	635,265	615,562	834,217	—
8,959	23,332	20,026	8,959 20,026	
8,959	23,332	20,026	28,985	—
227,614	658,597	635,588	863,202	—
227,614	662,678	643,048	870,662	—
357,820	973,742	1,003,807	1,149,847	211,780

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**KENOWA HILLS PUBLIC SCHOOLS**

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
U.S. Department of Health and Human Services		
Passed through Kent Intermediate School District (KISD):		
School Based Medicaid:	93.778	
2004-05		\$4,496
2005-06		2,210
Total School Based Medicaid		6,706
Early Childhood Services	93.577	480
Total U.S. Department of Health and Human Services		7,186
U.S. Department of Agriculture Nutrition Cluster		
Passed through Michigan Department of Education (MDE):		
National School Lunch Program:		
Lunches:		
Section 4 - Total Servings - 1950	10.555	78,211
Section 11 – Free and Reduced – 1960	10.555	272,659
Total Lunches		350,870
Breakfast:		
Total Servings – 1970	10.553	15,666
Free and Reduced – 1970	10.553	65,281
Total Breakfast		80,947

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
\$4,496	\$4,496	\$2,210	\$4,496	\$2,210
4,496	4,496	2,210	4,496	2,210
		480	480	
4,496	4,496	2,690	4,976	2,210
	72,130	78,211	78,211	
	222,972	272,659	272,659	
—	295,102	350,870	350,870	—
	12,582	15,666	15,666	
	49,190	65,281	65,281	
—	61,772	80,947	80,947	—

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

KENOWA HILLS PUBLIC SCHOOLS

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
USDA Commodities:		
Bonus Commodities	10.550	
Entitlement Commodities	10.550	\$50,023
Total USDA Commodities		50,023
Total U.S. Department of Agriculture (Passed Through MDE)		481,840
Total Federal Financial Assistance		\$2,491,916

- Notes:
1. This schedule was prepared using accounting policies consistent with those used in preparing the Basic Financial Statements.
 2. The amounts reported on the R7120, Grant Section Auditors Report, reconcile with this schedule.
 3. The amounts reported on the Recipient Entitlement Report, or PAL Report, agree with this schedule for USDA donated food commodities.

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
	\$4,280			
	46,179	\$50,023	\$50,023	
—	50,459	50,023	50,023	—
—	407,333	481,840	481,840	—
\$362,316	\$1,385,571	\$1,488,337	\$1,636,663	\$213,990

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

KENOWA HILLS PUBLIC SCHOOLS

For the year ended June 30, 2006

Section I – Summary of Auditor’s Results (Continued)

Federal Awards (Continued)

Dollar threshold used to distinguish between type A and
type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X Yes No

Section II – Financial Statement Findings

No matters reported.

Section III – Federal Award Findings and Questioned Costs

No matters reported.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

KENOWA HILLS PUBLIC SCHOOLS

For the year ended June 30, 2006

Note A – Federal Income Reconciliation

	Grant Expenditures Per Schedule of Federal Financial Assistance	Federal Revenue Per Financial Statements	Difference
Title I	\$162,985	\$162,985	
Title I - Migrant	50,373	50,373	
Title IIA - Improving Teacher Quality	119,164	119,164	
Title IID - Technology Literacy Challenge(Note 1)	3,679	3,647	\$32
Title III	21,100	21,100	
Title V	3,458	3,458	
Safe and Drug Free Schools and Communities Act	7,460	7,460	
Early Childhood Services	480	480	
I.D.E.A.	635,588	635,588	
School Based Medicaid	2,210	2,210	
Nutrition Cluster	481,840	481,840	
	\$1,488,337	\$1,488,305	\$32

Note 1: This amount was not recognized as deferred revenue on the 2004-05 Financial Statements

Hungerford, Aldrin,
Nichols & Carter, P.C.

C P A s A N D C O N S U L T A N T S

September 2, 2006

The Board of Education
Kenowa Hills Public Schools

The following comments pertain to our audit of the financial records of Kenowa Hills Public Schools as of and for the year ended June 30, 2006. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Kenowa Hills Public Schools:

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Kenowa Hills Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Kenowa Hills Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Kenowa Hills Public School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Kenowa Hills Public School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Kenowa Hills Public School's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Kenowa Hills Public Schools are described in Note A to the financial statements.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in performing the audit of the financial statements of Kenowa Hills Public Schools for the year ended June 30, 2006. We found the internal control structure and accounting system to be basically adequate and operating in the manner intended.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

General Fund

1. \$53,354 and \$171,857 to record and write off current and prior years' delinquent personal property taxes receivable at June 30, 2006.
2. \$529,103 and \$536,568 to record and reverse current and prior year end deferred revenue for unspent State supported programs.
3. \$76,919 to record the special education transportation reimbursement receivable at June 30, 2006.
4. \$26,501 to record additional special education transportation payable at June 30, 2006.

Food Service Fund

1. \$50,000 to record USDA bonus and entitlement commodities received during the year.

Debt Service Funds

1. \$5,202 and \$34,387 to record and write off current and prior years' delinquent personal property taxes receivable at June 30, 2006.

Proposed Audit Adjustments

There were no material adjustments proposed during the audit not recorded by Kenowa Hills Public Schools.

Suggestions And Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Kenowa Hills Public Schools to the Assistant Superintendent for Business and District accounting personnel as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

Other Comments

The General Fund balance of the District increased by \$1,458,100 to \$4,475,982 at June 30, 2006. This balance represents approximately 14 percent of the District's 2006-07 expenditure budget, up from 10 percent at June 30, 2005. Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Kenowa Hills Public Schools. This gives the District more stable operating funds during the year helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Kenowa Hills Public Schools has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with District business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the District in maintaining and improving its systems.

This communication is intended solely for the information and use of the Kenowa Hills Public Schools Board of Education, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Kenowa Hills Public Schools and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.



Certified Public Accountants